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ADMINISTRATIVE FILE
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July 30, 1959

Mr. John A. Roosevelt
C/O Bache & Company
36 Wall Street
New York 5, New York

Dear John:

Thank you very much for taking the time out and sending me the recent letter on the trucking industry.

Looking forward to seeing you.

Very truly yours,

James R. Hoffa
General President

JRH/JK/js

BACHE & CO.
Founded 1879

MEMBERS NEW YORK STOCK EXCHANGE
AMERICAN STOCK EXCHANGE TORONTO STOCK EXCHANGE
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36 WALL ST., NEW YORK 5, N. Y.

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INSTITUTIONAL DEPARTMENT

July 28 1959

Mr. James R. Hoffa, Trustee
CS, SE & SW Areas Pension Fund
25 Louisiana Avenue. N.W.
Washington 1, D.C.

Dear Jimmy:

Recently Bache Research Department completed a survey for investment purposes of various companies in the Trucking Industry. I thought that you might be interested in going through this as I believe it is one of the first of its kind covering this young and vital field.

Very sincerely yours,

John

John A. Roosevelt.

JAR:hkc

Enclosure.

TRUCKING—A GROWTH INDUSTRY

GROWTH FACTORS

Rugged individualism was the nucleus around which America's trucking industry was formed. There were no regulations, capital outlay was relatively small and hauls were for short distances over an undeveloped highway system. Financing was done privately and it was not until the last few years that any public equity financing was attempted. However, active markets now exist for the shares of a number of these companies and purchase of selected equities in this industry, we believe, offer the investor an unusual opportunity for capital appreciation and/or income.

There has been a consistent increase in the number of trucks carrying freight over our highways, yet it is doubtful if most people realize the full magnitude of the impact this business has on our economy. The trucking industry is the largest non-agricultural employer of labor — employing more than 7 million people directly and many thousands more indirectly through the manufacturer of trucks, tires, etc. While motor trucking is a young industry, its past growth record is phenomenal. Truck registrations for 1958 exceeded 11 million as compared with 3.6 million in 1935 — an increase of almost 3 times. The major factors contributing to this growth are the nation-wide system of improved highways; technological improvements and mass production methods in the capital goods industries; free reciprocity agreements among the states; greater weight and size limitations; and the accelerated pace at which industry has been decentralizing since World War II. These factors coupled with our rapidly increasing population and the "mass exodus" into the suburbs have made the trucking industry a most vital factor in our economy. There is every indication that the pace has not slackened, but rather that it will gather even greater momentum in the next decade.

TYPES OF TRUCKING ACTIVITIES

While there are over 11 million trucks (excluding Government-owned vehicles) on our streets and highways today, only about 2-2.5 million fall in the "for-hire" category, and it is these carriers which are the subject of this study. The "for-hire" trucks may be broken down into the following:

1) **Contract Carriers** are those operating under a specific contract or agreement transporting freight by motor vehicle over any route, interstate or foreign. They are required to obtain an operating permit from the Interstate Commerce Commission, but are not limited to any particular type of traffic or commodity. They do not accept any freight from the general public. Contracts entered into must be filed with the I.C.C. but are not available for inspection by the public. Rates are not supposed to be below the published minimum but can be as high as the traffic will bear.

2) **Exempt Carriers** are those which haul freight for compensation but which are specifically exempt from economic regulations of the I.C.C. and do not have to publish rates, file financial reports or obtain operating permits. They are subject only to the I.C.C.'s safety regulations. Under this group come special service vehicles such as those used exclusively for delivery of newspapers, those used to transport property incidental to transportation by aircraft, and for transportation within a municipality. But by far

the largest segment of the exempt group is made up of "for-hire" trucks engaged in the transportation of agricultural commodities and fish. The I.C.C. specifically exempts from economic regulations carriers of such products, but not products manufactured from such commodities. There has been considerable controversy as to just when a commodity becomes a manufactured product. To date, frozen fruits and vegetables come under manufactured products while frozen fish is exempt. Dried fruits and vegetables are exempt, but when dehydrated they are considered in the manufactured group. The time is rapidly approaching when a much clearer delineation will have to be made by the I.C.C. as to what is agricultural and what is manufactured.

3) **Common Carriers** are those which, for established rates, hold themselves available to the general public for transportation of goods in interstate or foreign commerce. In this group are included carriers of certain commodities in special types of equipment, such as automobile vans and petroleum tank trucks. The carriers of general freight, although they too may be limited in their operations by terms of their operating permits and certificates, are the true "common carriers". Their routes are strictly set forth and they cannot operate outside the areas specified. There are various types of services performed by these carriers; among these is the regulated-route scheduled service, which is the transporting of general freight between specified points over specified routes on regular fixed schedules. Where traffic density is light or spotty, regular route non-scheduled service may be performed. Also, there are the irregular routes where an operator may hold himself ready to offer transportation from a basic point or points within his operating territory.

4) **Local Cartage Carriers** are those which serve the general public over a local area — usually within a radius of 20 miles.

Some of the larger companies perform all of these services although the stress laid on the different types of services may be greatly varied. In analyzing the securities of any trucking company, it is important to study just how broad are their rights on the routes over which they operate.

CHARACTERISTICS OF THE INDUSTRY

Regulatory

The I.C.C. requires companies to keep records and accounts; supervises safety rules; and regulates consolidations, mergers, and issuance of securities. It further requires that interstate motor carriers "for-hire" publish their rates and other charges and allowances. No change in rates may be made except on thirty days notice to the Commission. Class I Carriers (those with gross revenues of $1 million or more) must file quarterly reports with the I.C.C. while Class II Carriers (those with gross of $200,000 – $1 million) and Class III Carriers (those with gross under $200,000) must file only annual reports. From these reports, which comprise about 2,500 carriers, certain characteristics of the industry can be observed.

Revenue Trends

Gross Revenues have been making new highs in every year since the reports have been available (1942) with the exception of a setback in 1954 attributed to the general economic recession. Prior to 1950, Class I Carriers were classified as those with gross revenues in excess of $100,000; in 1950 the figure was raised to $200 000 and in 1957 to $1 million.

Pre-Tax Net, however, has not kept pace with the increase in gross revenues for the industry as a whole and varies widely between companies. The operating ratio for the industry as a whole in 1958 was 96.6% which if compared with the competing railroads is, indeed, quite low. Some years back the I.C.C. advanced the theory that an average operating ratio of 93% would seem reasonable — however, such a goal could not possibly be achieved purely through the medium of rate increases, the only way in which the Commission can give relief. The theoretical average for the industry was almost achieved in 1948 and again in 1950 when pre-tax profit margins reached 6.5% and 6.7% respectively. Since then, however, the trend has been steadily downward and for 1958 was reported at 3.4%.

The picture, however, is not nearly so black as would be indicated by industry-wide totals or comparisons with other industries. For one thing the truckers are not nearly so heavily burdened with fixed costs and heavy debts and are therefore much more flexible in their cost controls. Secondly, the industry

figures are quite heavily weighted by a large number of small and moderate-sized companies, some of which do not break even on a reported operating basis but have survived through the cash throw-off from depreciation.

PROFIT MARGINS are influenced by the average revenues per ton-mile, the average length of haul and the average load. Increased loading of the individual truck or trailer, provided the increased load is of similar rate classification, means larger revenues without a corresponding rise in operating costs. Longer hauls tend to reduce the relative impact of terminal and handling costs — terminal costs on identical shipments obviously being the same whether the load moves 25 miles or 100 miles — and produces that much more revenue. The ton-mile revenue is a major determinant of both gross revenues and profit margins. Although the ton-mile revenue declined somewhat in the early war years, it recovered to the pre-war level by [illegible] and since then the trend has been steadily upward with only minor dips in 1950 and 1954. There has also been a steady increase in the length of haul since World War II which now averages over 300 miles, as compared with 180 miles in 1944.

The average load has also been on the upgrade, but not at so rapid and consistent a rate as ton-mile revenues and length of haul. However, both the length of haul and the average load factor should, in general, follow an upward trend in the future, stimulated by technological improvements in equipment, greater interior loading room and the increased use of light metal. Lighter weight equipment allows heavier pay loads within legal state road limits. Regionally, however, there are wide variations as to ton-mile revenues and length of haul and thus each company should be analyzed on its own merits.

Financial Position

A characteristic of the industry is a fairly low working capital position, averaging about 1.5 to 1. By accepted industrial or even railroad standards, such a ratio would be quite inadequate and interpreted as a sign of weakness. In the case of trucking companies, however, this weakness is more apparent than real. We say this because the trucking business is essentially a cash operation. Under I.C.C. regulations bills must be rendered within 7 days and paid within 14 days of shipment. Consequently no substantial trade accounts receivable are carried. In addition, trucking is a service business and there is no necessity to carry substantial inventories. Therefore, large working capital or large cash balances are not required. To a great extent the relative financial strength of the individual trucking company should be determined by factors other than the working capital position

An important consideration is the relationship between depreciation and the annual rate of principal payments on equipment obligations or conditional sales contracts. Other things being equal, the company with depreciation charges well in excess of equipment maturity requirements does not need as large a cash reserve as a company with equipment maturities in excess of depreciation charges. The company with excess depreciation charges is generating cash from operations while the other is using up what cash it has.

Another factor to be considered is the condition of equipment. If the equipment is modern and sufficiently adequate to take care of present and prospective traffic there will be no potential drain on cash for down payments on additional equipment. Where equipment is inadequate or obsolete the company may need considerable cash to bring the fleet up to date. In this connection, companies that lease part of their equipment must be appraised financially by different standards than those applied to companies who own their own trailers and tractors. The truck company leasing its equipment makes no direct charge to earnings for depreciation and has no direct obligation for equipment purchase maturities.

All of these factors must be taken into consideration in determining whether or not the working capital position is adequate. There can be no set formula as to working capital and cash ratios. To a large extent the trucking industry has been financed internally through retained earnings. Long-term debt consists of equipment obligations or conditional sales contracts, the periodic principal payments for which are covered by depreciation and do not constitute any cash drain of reported earnings.

In considering the balance sheet position it must also be borne in mind that in many cases invested capital may be considerably higher than shown, and assets may be understated. For example, intangibles consist largely of the unamortized part of the acquisition cost of operating rights. Such rights and franchises have in most cases increased in value since they were acquired. Also, many truck operators have subsidiary or affiliated companies which own terminal properties and lease them to the parent company. Equipment-owning subsidiaries or affiliates operate in much the same manner. Such leasing subsidiaries or affiliates

are not subject to I.C.C. regulations and consolidated statements do not have to be filed. Thus, the physical assets and earnings, if any, would not be included in the overall report for the industry. Published reports to stockholders, however, are reported on a consolidated basis. The chief advantage of having leasing subsidiaries is that they are not subject to the I.C.C. approval in connection with financing. Also income tax benefits may accrue from a subsidiary set-up as the earning power of the vast majority of trucking companies is modest.

The following discussion covers ten companies which are representative of the industry. Of these we regard Consolidated Freightways, Cooper-Jarrett, Roadway Express "A" and Ryder System as most attractive for appreciation over the intermediate term; these are designated by a (†).

ASSOCIATED TRANSPORT, INC.

		Capitalization (12/31/58)	
Recent price	5¾–6	Long-term debt	$3,892,543
Dividend	None*	$6 cum. pfd. stock ($100 par) conv. into 3 com. shs. red. at 105	39,490 shs.
Traded	OTC		
Yield	—	Common stock	648,762 shs.

** Arrears on the preferred amount to $57 per share.*

The company is a regular-route, scheduled common carrier operating only over designated routes. These cover the entire eastern seaboard and extend to Cleveland and Cincinnati, Ohio; Chattanooga and Nashville, Tennessee; Atlanta and Rome, Georgia; and Charleston, South Carolina. Several lake ports in New York and Pennsylvania are also served. In point of gross revenues, Associated is the second largest common carrier trucking company. Revenues have followed a steady upward trend over a period of years, but, to date, earnings have not kept pace with the expansion in business. In 1956, a change in operating procedures was initiated putting major stress on developing a balanced two-way movement of traffic, rather than concentrating on traffic volume to produce revenue dollars. Some progress along these lines has been made, and further effort should result in an improved operating ratio and greater profit margin.

In 1958, the company was faced with unusual costs brought about by the termination of most of their maintenance contracts with International Harvester Co., which necessitated the setting up or enlarging and equipping of garage facilities at more than half of their many terminals. It was also necessary to overhaul and partially rebuild practically the entire fleet of 4,000 units in order to meet the changed standards and requirements of the I.C.C. as to equipment maintenance, safety devices and records. Again in 1958 inventories of parts were updated and more than $125,000 was written off from income to obsolescence. In all, 1958 was a tough year.

For 1959, management anticipates revenues in excess of $60 million compared with $57 million in 1958. With income taxes taking a smaller percentage, and a first quarter profit already on the books as opposed to a deficit in 1958, earnings on the common as well as the preferred should increase. Management feels that contingent upon the approval of rate increases to cover the rising labor costs, increases in other operating expenses can be absorbed and a year approaching that of 1951 ($1.57) can be expected. Should earning power be restored in 1959, the management may make an attempt to eliminate preferred arrears through a recapitalization plan, thus paving the way for the common to participate in future growth. Preferred dividends have been paid at the current rate, but there are still $57 of arrears to be cleaned-up. *Currently, the common stock has appeal as a low-priced speculation for those willing to assume the risks of management's ability to increase net, eliminate preferred arrears and continue to grow with the industry.*

CONSOLIDATED FREIGHTWAYS, INC.†

		Capitalization (12/31/58)	
Recent price	25¾–26⅛	Long-term debt	$29,769,341
Dividend	80¢	Common stock ($2.50 par)	1,627,139 shs.*
Traded	OTC		
Yield	3.1%		

** On May 7, 1959, Blyth & Co. offered 300,000 shares of common at $22 per share. There are options to purchase 128,400 shares at an average price of $13.60 each.*

Consolidated Freightways operates principally as a motor carrier of general commodities over regular routes in the Midwest and West, three western Canadian provinces, Alaska, Hawaii, Japan and the Philippines. The company handles both long-haul and short-haul traffic, their longest haul being 2,937 miles with the average haul approximately 766 miles. Other operations include warehousing, pool car distributing, truck leasing, household moving, shipping of bulk liquid commodities and those requiring special equipment. Alaskan shipments require "fishy-back" and "piggy-back" transportation. The company also participates in coordinated transportation with various rail, water, pipeline and air carriers.

Subsidiaries include Freightliner Corp. — assembler of trucks and trailers under Freightliner and White Freightliner names; Techni-Glass — maker of plastic glass racks and bodies for trucks and trailers; Factory Motor — rebuilders of tractors, trucks and parts; and Transicold Corp. — second largest producer of refrigeration equipment for use in transportation vehicles, and manufacturer of air conditioning equipment for the guided missile program.

I.C.C. permission has been requested to issue up to 133,025 shares of Consolidated common to acquire Youngstown Steel Car, which manufactures steel freight car sides used in the construction and repair of railroad cars (accounting for 50% of sales) as well as automotive truck and trailer chassis and trailer forms. Applications are pending before the I.C.C. for numerous other acquisitions.

The year 1958 saw both a strengthening of the financial base of the company and further development of its organization. Revenues rose to a new peak of $84.8 million versus $76.8 million in 1957. Costs, however, rose sharply causing a 35% drop in operating income. Other income exceeded miscellaneous charges by a small margin and interest was higher. Thus despite higher gross and lower taxes net income declined 23% to $1.7 million versus $2.3 million in 1957 or $1.14 per share on 1.5 million shares as compared with $1.76 per share on the average 1.3 million shares outstanding in 1957. This can in part be attributed to three work stoppages which affected both carrier and non-carrier activities during the Summer and Fall of 1958. The company's financial condition is good with the current ratio standing at 1.76 to 1 at the year end. Cash flow during 1958 totaled $8.1 million or $5.35 per share.

The company's recent expansion has been rapid and has resulted in a certain amount of dilution of the common stock. However, the outlook for the company is good, and the evidence of strong year-to-year revenue gains should eventually be brought down to net. Current acquisitions will help to accomplish this. In addition, the company is striving to improve cost controls and it is expected that once this rapid expansion program is digested their operating ratio will improve.

Although the stock is fully priced based on near-term indicated earnings it would still appear to be an attractive purchase for investors interested in the long-term earnings potential and growth possibilities of this giant in the trucking business.

CONTINENTAL TRANSPORTATION LINES, INC.

		Capitalization (12/31/58)	
Recent price	11¼-11⅝	Long-term debt	$625,556
Dividend	70¢	$5.50 cum. pfd.	6,500 shs.
Traded	OTC	Common stock	300,000 shs.
Yield	6.1%		

Continental Transportation is a regulated common carrier transporting general commodities in interstate commerce in eight states and the District of Columbia. Basically, it is a regional operation, dominant in the area extending from New York, Newark, Trenton, Philadelphia, Baltimore and Washington in the East to Pittsburgh, Cleveland, Canton, Columbus, Dayton, and Cincinnati in the West. The company also has operating rights in metropolitan areas of New York City, Washington, Pittsburgh, Cleveland and Cincinnati as well as in the areas within the commercial zones of other communities served. The company operates both owned and leased equipment, but accelerated purchases in the last couple of years are lessening their dependence on leased tractors and trailers. Of the 16 terminals in principal cities served, seven are owned and the rest are leased.

Continental has laid major stress on Less Than Truckload (L.T.L.) traffic where it felt that the truck has its greatest economic advantage, and where competitive pressure on rates is the least severe. The major

economic portion of the traffic handled is "on line" or local to the company's own territory with only about one half of 1% represented by interline traffic.

In November, 1958 all the stock of Philadelphia Pittsburgh Carriers, an interstate carrier, was purchased and the company is being operated as a wholly-owned subsidiary. This subsidiary is now operating in the black for the first time since it has been acquired and is expected to show profitable operations for 1959. It is estimated that the tax-loss-carry-forward will shelter all profits shown by Philadelphia Pittsburgh for this year and probably next. Since September, 1957, the company has been operating Motor Age Transit Lines, pending I.C.C. approval for acquisition which has now been given.

The company, including wholly-owned subsidiaries, for the quarter ended March 31, 1959 reported that net profit after taxes was up 38% over 1958, with earnings on the common approximately 28.8¢ versus 19.6¢ in the like period of 1958. Indications are for continued improvement and the company's earnings for 1959 should rise materially over the $1.01 per share reported in 1958. *The stock has a limited market but is attractive for long-range capital gain.*

COOPER-JARRETT, INC.†

Capitalization (12/31/58)

Recent price	13¼	Long-term debt	$1,030,905
Dividend	70¢*	Common stock	524,909 shs.
1959 price range	14½–12⅛		
Traded	ASE		
Yield	5.2%		

* *Quarterly dividend rate raised from 12.5¢ to 17.5¢ in March, 1959.*
† *A 5% stock dividend was paid in 1958 and a 10% stock dividend was paid in March 1959*

Cooper-Jarrett is a regulated common carrier operating in 15 states and by interchange to all points west of Chicago. Its trucks move all types of commodities from drugs to heavy machinery between Kansas City, Mo. and Chicago and between Chicago and New York City. The company also has specific commodity authority to transport dairy products, eggs, and dressed poultry over additional routes, and liquor transportation permits in various states where required. In conjunction with the railroads they have gone in for "piggy-back" service between New York City-New Jersey area and Philadelphia-Chicago. Thus operations are well diversified and earnings are not dependent on any one commodity group nor on any specific territory. Owned terminals are operated at Philadelphia, Chicago, Jersey City and Kansas City, Mo., with leased terminals at Trenton, N. J., Cleveland, Ohio, and Wallingford, Conn. The company operates with both owned and leased equipment with leases for the most part being on a long-term basis.

Despite the recession, operating revenues reached a new high in 1958. Earnings, however, at $1.00 per share, were slightly below the $1.09 of 1957. With the pick-up in general business, earnings for the March quarter 1959 were reported at 21¢ per share versus 2¢ (adjusted for stock dividend) in 1958. Since the first quarter of the year is traditionally the poorest in the industry, this marked improvement could indicate that the company is headed for the best year in its history. Management is alert and quick to adopt cost-saving devices. They are also noted for their careful planning of equipment replacement so that its fleet is always among the most modern in the industry. The company has operated at a profit in every year since 1937 and has paid continuous dividends since 1947. *The stock at current prices appears particularly attractive both for yield and for long-term growth.*

DENVER CHICAGO TRUCKING CO., INC.

Capitalization (12/31/58)

Recent price	23–24	Long-term debt	$4,985,587
Dividend	$1.00	Common stock*	413,400 shs.
Traded	OTC		
Yield	4.3%		

* *Detroit & Cleveland Navigation Co. owns 37.5% of the common or 153,675 shares.*

Denver Chicago Trucking is the only fully transcontinental regulated motor carrier of general freight in the country. It provides a direct line service from Seattle, Los Angeles, San Diego and Phoenix via

Denver and Kansas City to St. Louis, and via Denver and Chicago to Cleveland, Buffalo, Albany and New York. Interline connection is provided with other points. Through the acquisition of R. B. Wilson in 1956, a bulk liquids carrier operating in Colorado, Wyoming and New Mexico, the company expanded its operations into the bulk liquids field. Major terminals are owned at Denver, Pueblo, Cleveland, Chicago, St. Louis, Phoenix, Los Angeles, Buffalo, Albany and North Bergen and are leased in Seattle, Colorado Springs and Syracuse.

The company enjoys a long average haul — 1,500 miles. Over the years, it has been a highly efficient operation. However, profit margins narrowed sharply in 1952, stayed fairly steady in the next two years and were cut sharply in 1955 due to the strike in eleven western states which halted the company's operations west of Chicago.

A further inhibiting factor was their inability to get rate increases on long-haul traffic to compensate for increasing costs. In 1956 and 1957 earnings resumed their upward trend with $2.78 and $3.40 being reported against the $1.53 of the "strike year". In 1958 the western carriers were again affected by a prolonged strike which resulted in a drop in operating revenues and higher costs. Earnings for 1958 were reported at $2.91 per share. For 1959 the management has set a goal of $41.5 million gross revenues with 10% brought down to pre-tax net. Taxes for the 1959 year are estimated at around 50%. For the March Quarter operating revenues were up some 12% but pre-tax net per share was slightly lower due primarily to higher labor costs. With no work stoppage expected this year, earnings should be good, dependent primarily on management's continued ability to maintain tight cost controls. Dividends are conservative at $1 per annum. *The stock has a thin market and sells at a conservative price-earnings ratio. Positions for long-term appreciation should prove to be rewarding.*

INTERSTATE MOTOR FREIGHT SYSTEM

		Capitalization (12/31/58)	
Recent price	13⅛–13½	Long-term debt	$3,094,740
Dividend	60¢*	Common stock	677,212 shs.**
Traded	OTC		
Yield	4.5%		

** Indicated rate.*
*** 125,000 shares offered February 1959 at $10.50.*
Option to purchase 11,400 shares at $5.75 to $6.25 each through 1962.

Interstate Motor Freight is a certified regulated carrier of general freight operating over a system comprising over 21,800 route miles in 24 states and the District of Columbia. Routes extend from Boston, New York, Philadelphia and Baltimore in the East to St. Louis and Minneapolis in the West. The company also serves as an intrastate carrier in Michigan, Illinois, Indiana, Ohio and New York and through subsidiaries in Indiana, Colorado, Nebraska and Wyoming. Terminals are located at over 60 locations and are for the most part leased.

Interstate has concentrated on movements of L.T.L. shipments and its traffic is well diversified. Perhaps the most important single factor in the company's freight picture is the automobile industry, since Interstate moves a large volume of automobile parts and materials both to assembly plants and to auto parts dealers. The automobile industry does not dominate its fortunes but a good automobile year adds to revenues.

Since 1955 the management has been aggressively purchasing their own tractors (previously leased) as they found that ownership permits more economical use of both the tractors and labor. These acquisitions have resulted in large capital expenditures and created a need for additional working capital. In addition the company has been purchasing other companies which would complement its operations. Permission to acquire the Lancaster Transportation Co. of Lancaster, Pa. is currently being sought from the I.C.C. This should add approximately $4 million to the company's gross revenues and will bring into the company's system 350 pieces of road equipment and terminals located along the Eastern Coast. In February, 1959, 125,000 shares of common were offered to the public at $10.50 per share. Proceeds from the sale were used to reimburse the company for expenditures of approximately $1,039,281 for the acquisition of a terminal site in Cicero, Illinois and for construction of terminal facilities. Working capital, however, is still thin and some additional borrowing will no doubt have to be done.

Despite a 10% advance in gross in 1958 (a new peak), expenses were substantially higher and operating income was down 14%. Heavier miscellaneous deductions more than offset larger other income and higher depreciation adjustment from the disposal of used equipment. Consequently, net income for 1958 was 15% lower than that of 1957 at $1.46 per share versus $1.77 in 1957. For the 16 weeks ended April 25 earnings of 41¢ were reported versus 26¢ in the like 1958 period.

The company has the necessary tools to make a good profit. Much will depend on the ability of management to improve operating efficiencies and put in tighter cost controls. We feel sure that the management is aware of this. *Although the stock is not without risk the potential improvement in earnings from growth combined with tighter cost controls gives the shares speculative appeal for capital gain.*

McLEAN TRUCKING COMPANY

Capitalization (6/30/58)

Recent price	9	Long-term debt	$5,315,323
Dividend	40¢	Common stock	1,272,500 shs.
1959 range	10¼–8⅛		
Traded	NYSE		
Yield	4.4%		

McLean Trucking Company is engaged in the transportation of general freight as a common carrier, subject to the rules and regulations of the I.C.C. and the regulatory bodies of the states in which it operates. The company operates over regular and irregular routes along the Eastern Seaboard from Atlanta to Boston, through South Carolina, North Carolina, Virginia, District of Columbia, Maryland, Delaware, Pennsylvania, New Jersey, New York, Connecticut, and Rhode Island. The western division formed by the 1957 merger of Carolina Motor Express operates from Winston-Salem, N. C. through the states of Virginia, West Virginia, Ohio, Indiana and Illinois. The company also acts as an intra-state carrier in North Carolina and a small portion of South Carolina. Service, Inc., acquired in December, 1957, made it possible for McLean to extend direct service from points in Indiana, Kentucky, Ohio and West Virginia to points beyond New York City into New England. Of the terminals operated, 31 are leased and 11 are owned by the company or its wholly-owned subsidiary, Malia Corporation.

The company's traffic is well diversified and largely in the L.T.L. category. Most important are textiles, tobacco, foodstuffs and machinery which account for approximately 51% of revenues and tonnage. McLean's rate of growth in gross revenues in the postwar period has been consistent and one of the most spectacular in the industry. In the fiscal year ended 6/30/58 operating revenues advanced to $29.2 million from $25.1 million but net operating income declined to $1.7 million from $2.5 million in the preceding year. Net per share was reported at 54¢ versus 88¢ in 1957. This drop in earnings was due in part to increased costs and the fact that earnings of Service, Inc. were included only from 12/9/57, when it became a wholly-owned subsidiary. Had the earnings for the full period been included net per share would have been equal to 76¢ on the common rather than the 54¢ reported. For the nine months ended 3/31/59 gross revenues are continuing to increase but net per share was lower, at 57¢ versus 65¢ for the like 1958 period.

Additional acquisitions, new terminal facilities and tighter cost controls should help the company to resume its strong upward trend of the past years. *Prospects for further revenue and earnings gains are considered satisfactory and the stock can be considered an attractive speculative commitment at current low prices.*

PACIFIC INTERMOUNTAIN EXPRESS CO.

Capitalization (12/31/58)

Recent price	14–14½	Long-term debt	$7,795,328
Dividend	80¢	Common stock	1,629,525 shs.
Traded	OTC		
Yield	5.6%		

Pacific Intermountain Express operates the third-largest motor carrier freight system and serves the Western and Midwestern states. Principal routes extend from Chicago and St. Louis to Kansas City, from

which three parallel courses reach Pueblo, Colorado Springs and Denver. From Denver two lines extend to Salt Lake City, thence three separate routes fan out to the West Coast arriving at Seattle, San Francisco and Los Angeles. Their tanker division is engaged predominantly in the hauling of petroleum products but has been expanding its operations to include the hauling of acids, chemicals, chemical solutions and edible products. In March, 1959 the company received I.C.C. permission to acquire Union Freightways, which will extend operations into Nebraska, Iowa and Minnesota, and will also provide more direct service routes between the Pacific Coast and Chicago. It is estimated that this acquisition will increase the company's revenues by some $9 million annually. During 1958 P.I.E. was granted authority to handle frozen foods over irregular routes between the Pacific Coast states and a number of Middle West states. This is of considerable importance as eastbound movement of frozen foods will help balance the heavy westbound movement of manufactured articles.

P.I.E. had a difficult year in 1958. About one-seventh of their operating revenues are derived from their Bulk Commodities Division, which is more closely related to the variation in industrial demand and petroleum market conditions than their General Freight Division, which is related to the movement of consumer goods. Warm weather plus the reduced demand for petroleum products resulted in a sharp drop in this division which more than offset the better performance of the General Freight Division. In addition, the company's third quarter earnings were adversely affected when eleven western states experienced a teamster's strike and lockout that lasted about six weeks.

However, after reduced depreciation charges, lower expenses and larger other income, the reduction in pre-tax net was negligible. Earnings were reported at 81¢ per share versus 89¢ in 1957. The adjustment of 1958 depreciation and income taxes had the effect of improving 1958 per share earnings by 25¢ over what they would have been otherwise. The management is keenly aware of the necessity of reducing costs and increasing efficiency and has been working towards that end. Earnings for the quarter ended March 31, 1959, were reported at 12¢ versus 4¢ in the like period in 1958.

The company's cash position is strong for the industry and long-term debt relatively small. The 20¢ quarterly dividend rate is expected to be maintained and provides a good yield. The 5% stock dividend paid in previous years has been discontinued. *Noting the earnings improvement apparently under way in 1959 the stock is speculatively attractive.*

ROADWAY EXPRESS, INC.†

		Capitalization (12/31/58)	
Recent price, Class "A"	15-15⅜	Long-term debt	$4,029,259
Dividend	70¢	$.70 Class "A" common	555,571 shs.*
Traded	OTC	Common stock	282,620 Shs.**
Yield	4.6%		

** Class "A" stock redeemable at 11; dividends cumulative to extent earned; has preference over common as to assets and dividends up to $0.70; convertible into common share for share.*

*** Common stock all owned by C. J. Roush and family.*

Roadway Express operates over 27,000 miles of certificated routes providing single-line service to 15,757 different points, which include eight of the largest metropolitan areas in the U. S. Routes extend from New York City through New York State, including Syracuse and Rochester, to the midwestern network connecting all principal cities; westward through New Jersey and Pennsylvania to link up with the Midwest routes; south through Philadelphia, Baltimore and Richmond, where a network extends west to Memphis, Tennessee, east to Wilmington, N. C. and Charleston, S. C.; and south to Montgomery, Ala., and Albany and Savannah, Ga. Other routes from Chicago extend south to St. Louis, west through Kansas City to Wichita, south through Oklahoma City to San Antonio, Houston and Amarillo, Texas. A franchise to operate in Massachusetts, Rhode Island and Connecticut was added through the acquisition of M. & R. Transportation. The company's franchises to operate over its present broad network of routes serving the most populous and highly industrialized areas of the U. S. constitute one of its most important assets. The company operates some 78 terminal facilities in 66 cities east of the Mississippi, which are leased for the most part. In 1958 the company completed a 70-door terminal at Kearny, N. J. serving the metropolitan

New York and New Jersey area; a 54-door terminal at Laurel, Maryland serving Baltimore and Washington, D. C. area; and added 28 new doors to the dock at the Akron terminal for a total of 69 doors. The company has received permission from the I.C.C. to borrow money from an insurance company and a bank by mortgaging the two new terminals. On April 10, 1959 it was announced that the company entered into an agreement with Pan Atlantic Steamship Corp., a McLean Industries subsidiary, to provide an integrated Sea-Land Freight service connecting 7 midwestern states and Puerto Rico.

Operating revenues advanced 9.8% to a new high in 1958, reflecting a 4.4% increase in tonnage carried and a small rise in the average length of haul (818 miles versus 807 in 1957). Operating costs and expenses were held in line and operating income rose 11%. Total income increased 12% after larger other income. With greater depreciation, amortization and interest charges offsetting a reduced provision for possible loss on investment, the gain in pre-tax net was held to 11%. After slightly higher taxes (53% versus 52%) final net was up 9.7%. Earnings on the Class A were equal to $2.25 per share or $1.11 on the Class A and Common stock combined. For the March quarter, earnings climbed to 49¢ on the combined Class A and Common versus 17¢ in the 1958 period. This good showing was accomplished despite a recession in the first part of 1958, and can be attributed to the fact that management was quick to further improve service, increase sales efforts and trim operating costs wherever possible without impairing service.

Although current liabilities exceeded current assets at the year-end by $265,974, this was due to the building of the new terminals and working capital position was improved when loans on mortgages were approved in early 1959. With indications for general business to continue at a rate in excess of 1958 and with the greater efficiency factors put to a full year's test, there is every reason to expect the company's excellent record of growth to continue. *The stock at current prices offers an attractive speculative opportunity to participate in the potential of a strong growth trend.*

RYDER SYSTEM, INC.†

		Capitalization (12/31/58)	
Recent price	57¾–58	Long-term debt	$24,200,652
Dividend	$1.40**	Common stock	788 239 shs.*
Traded	OTC		
Yield	2.4%		

* *Additional 150,000 shares offered March 1959 at $48.* ** *Indicated dividend.*

Since we went to press, Ryder signed an option to purchase Transportes de Guatemala, S.A., a trucking company in Guatemala.

Ryder System, Inc., is a holding company with subsidiaries engaged both in the common carrier trucking business and in the truck rental business on a long-term basis. The company is about third in size in truck leasing and is the largest common carrier in the Southeast, with operations expanding rapidly in other parts of the country.

The common carrier division comprises Great Southern Trucking Co., T.S.C. Motor Freight Lines and Ryder Tank Line. Ryder has contracted to acquire all of the outstanding common and preferred stock of Southern Plaza Express, Inc., which operates over regular routes in the mid-continent area between El Paso and Chicago, connecting with T.S.C. Motor Freight Lines at Houston. Pending I.C.C. approval, temporary authority has been received to operate Hunt Truck Lines, which serves important counties in the central Florida area. After approval this purchase will generate much-needed northbound freight for Great Southern. Other acquisitions still pending before I.C.C. include Cooper Motor Lines, Inc., Loo-Mac Freight Lines and two carriers which are being operated under temporary authority — Emmott-Valley Transportation Co., and Moffett Transit Lines. The purchase of State Wide Transportation Inc., providing intrastate authority to transport petroleum products in North Carolina, was negotiated for in 1958 and consummated in 1959 by Ryder Tank Line. (The company is always looking for new acquisitions if they believe that their management can make it a profitable operation.) In addition, new terminals are being built and the most modern facilities being installed at the various terminals to improve cost controls and increase the profit margin. Great Southern, the largest of the Ryder common carriers although thirteenth in size of gross revenues, was lowest in operating ratio — 92.7% — among the fifteen largest truckers in 1958.

While the common carrier operations have been the largest part of the business of the Ryder System, the truck rental segment has contributed more to net. It has been estimated that over 50% of net income is derived from this end of the business. The truck leasing division operates branches in over eighty cities in twenty-five states and Canada. This is the fastest-growing division in the System and in 1958 provided $25.4 million in revenues with an expected contribution in excess of $45 million in 1959. Trucks are leased on a full service basis — Ryder providing everything but the driver. Most of the leases run for a period of four years and charges are figured on a time basis, plus a fee for total miles operated. The company has also just put itself into the auto leasing field through the acquisition of Dixie Drive-It-Yourself System, which reported revenues of $5.7 million in 1958 (Ryder expects to increase this by 20%). In 1959, the Ryder System expanded into the general leasing field of any and all types of machinery, equipment, etc. This is a relatively untapped market where the potential is great and, while the margin of profit is small, Ryder could have an advantage in that they already have offices and territories set up which could handle this type of business in conjunction with their truck and car leasing activities. The demonstrated efficiency of the management in the fields in which they have already outperformed the industry should do much to make this a profitable operation. Currently, income from other than truck and auto leasing is averaging $20,000 a month.

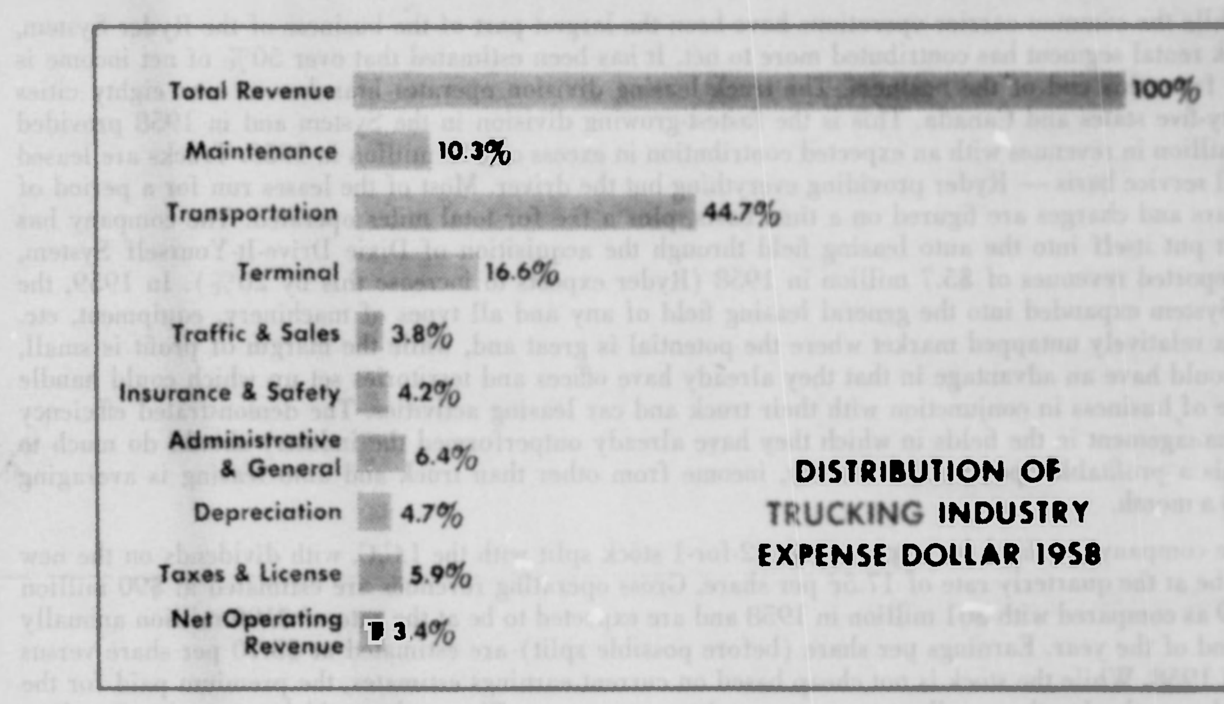
The company has filed for approval of a 2-for-1 stock split with the I.C.C. with dividends on the new stock to be at the quarterly rate of 17.5¢ per share. Gross operating revenues are estimated at $90 million for 1959 as compared with $61 million in 1958 and are expected to be at the rate of $100 million annually by the end of the year. Earnings per share (before possible split) are estimated at $3.70 per share versus $3.01 in 1958. While the stock is not cheap based on current earnings estimates, the premium paid for the indicated growth plus the excellent management is not too great. *The stock would be attractive for those interested in the long term growth potential not only of the common carrier but also of the leasing divisions.*

CONCLUSION:

The trucking industry is one of the fastest growing in the country. To date the industry has to a large extent expanded internally. Earnings have been plowed back; there has been some debt financing but primarily to cover purchase of equipment and there has been relatively little equity financing. While the industry has grown rapidly and there are quite a few large companies now operating, it is still an industry made up essentially of small operators. These small operators will find it increasingly difficult, if not impossible, to operate profitably and take advantage of traffic potentialities of their routes and service areas. A company cannot operate profitably without modern equipment, as well as mechanization of terminal facilities and accounting procedures, all of which are expensive.

It appears, therefore, that the era for small individual companies is rapidly drawing to a close, to be supplanted by one dominated by large trucking corporations. There will be increasing mergers and consolidations as the smaller operators are absorbed. This, we believe, will lead to increased equity financing by the corporations as they seek additional funds. Thus, the number of companies with public stock participation will grow and those who already have some degree of public participation will seek listings on recognized exchanges and increase the shares in the hands of the public both through stock splits and new financing. These larger companies will take more and more advantage of technological improvements, thereby reducing costs and increasing profit margins. Higher rates will provide additional stimulus and the repeal of the 3% Federal excise tax on freight shipments should help increase tonnage. The industry is already cognizant of the importance of coordination and strongly believes that coordination between the trucking industry and the railroads is the only solution to the country's transportation problem.

After witnessing some hesitation, while all the phenomenal growth factors were being digested, the trucking industry is again ready to accelerate its growth pattern. Widening public interest in the equities of this growth industry should result in a progressively more liberal capitalization of earnings and earnings prospects.



DISTRIBUTION OF
TRUCKING INDUSTRY
EXPENSE DOLLAR 1958

REVENUE AND OPERATING RATIOS FOR 15 LARGEST COMMON MOTOR CARRIERS YEAR OF 1958

CARRIER	Revenue	Operating Ratio	Standing: Amount of Revenue	Standing: Operating Ratio
Consolidated Freightways*	$58,565,000	96.1	1	10
Associated Transport*	56,949,000	99.3	2	15
Roadway Express, Inc.*	51,630,000	93.7	3	6
P. I. E.*	46,768,000	96.1	4	9
Spector Freight System	43,404,000	95 9	5	8
Watson Bros. Transportation	36,090,000	99 0	6	14
Interstate Motor Freight*	35,765,000	93.6	7	5
Transamerican Freight Lines	35,544,000	98.3	8	12
Denver Chicago Trucking Co.*	33,180,000	92.8	9	3
McLean Trucking Company*	31,751,000	94 3	10	7
Norwalk Truck Lines	27,041,000	99 0	11	13
Eastern Express, Inc.	26,786,000	97.1	12	11
Great Southern Trucking Co.*	26,148,000	92 7	13	1
Yellow Transit Freight Lines	25,029,000	92.8	14	2
Motor Cargo, Inc.	24,392,000	93 0	15	4

* *Included in the study.*

BACHE & CO.

July 1, 1959.